revolution

"Over the next three years, our vision is to strengthen Drug Royalty as an internationally competitive player in the life sciences sector, and to become broadly recognized for the value we represent." Jim Webster, President

evolution

revolution

"We have the track record, the financial acumen and the experience to recognize emerging opportunities in the life sciences industry." Harry Loveys, Executive Vice-President

"We believe our strengths will support our growth strategy. By capitalizing on our proven expertise and financial strength, we are confident of Drug Royalty's success."
Shameze Rampertab, Director, Finance

"The only limits to the growth potential of our new strategy are the boundaries on biotechnology industry developments." Shermaine Tilley, Director, Bio/Pharmaceutical Research

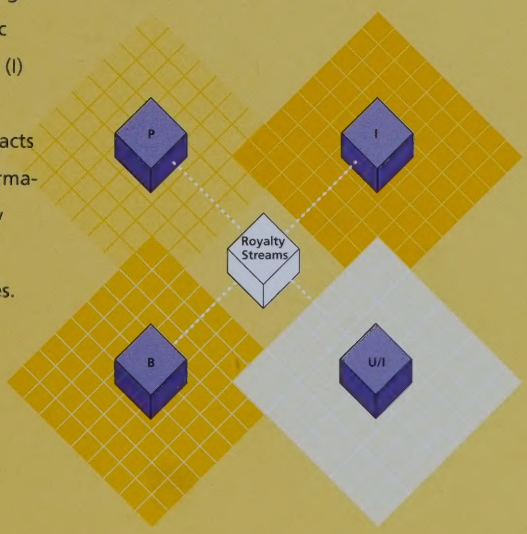
"Desloratadine and D2E7 have the potential to be blockbuster drugs which will provide our shareholders with rapidly growing royalty streams over a long period of time." John McCulloch, Vice-President, Technology

"Our royalty portfolio continues to increase in value with the addition of each new royalty interest. We believe that these investments provide the foundation for growing, sustainable shareholder returns in the years to come." Ian Lennox, Chairman

Drug Royalty's growth strategy is to assertively capitalize on unique growth opportunities within the pharmaceutical and biotechnology sectors – opportunities stemming from new technologies, products and services that were unheard of only a decade ago.

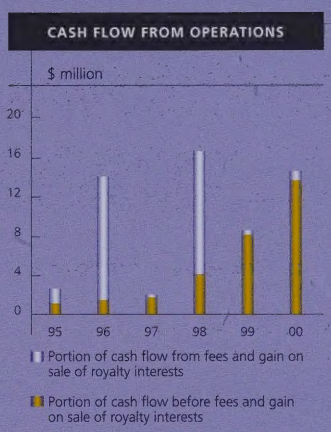
an evolution in strategy and market opportunities

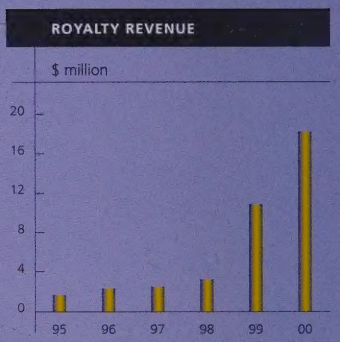
Drug Royalty's foundation consists of acquiring existing royalty streams from public institutions (U/I), inventors (I) or companies (P) (B), and creating new royalty contracts by providing funds to pharmaceutical and biotechnology companies in return for a percentage of top line sales.



"All of this impressive growth is attributable to the strategic investments we made in quality products and companies."

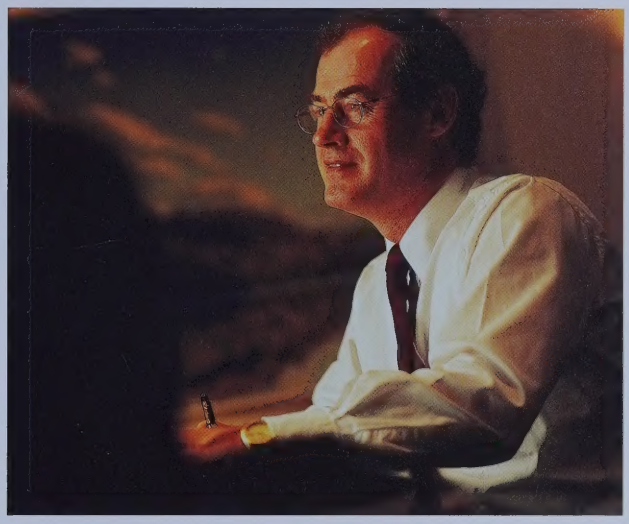
Jim Webster, President





financial highlights

Years ended August 31	**2000**	1999	1998	1997	1996	1995
Statement of Operations Data						
Royalty revenue	**$18,234,869**	$10,834,810	$3,208,217	$2,383,711	$2,279,801	$1,635,078
Fees and gain on sale of royalty interests	**678,337**	325,893	15,822,009	186,587	12,575,419	1,297,356
Interest revenue and other	**945,752**	667,223	1,687,488	1,139,461	758,111	840,551
Net earnings (loss)	**4,002,830**	1,804,954	9,234,559	690,057	9,102,575	(755,153)
Basic earnings (loss) per share	**0.10**	0.05	0.29	0.02	0.35	(0.03)
Cash flow from operations, excluding fees and gain on sale of royalty interests	**13,681,293**	8,139,223	4,102,818	1,760,940	1,488,211	1,146,965
Cash flow from operations	**14,593,408**	8,560,931	16,624,231	2,031,307	14,054,428	2,621,865
Cash flow from operations per share	**0.36**	0.24	0.51	0.07	0.55	0.10
Balance Sheet Data						
Cash and equivalents	**$19,040,002**	$20,059,922	$19,790,048	$32,019,978	$12,634,767	$12,588,742
Working capital	**20,814,842**	23,884,368	14,094,245	31,472,102	24,879,620	11,600,611
Royalty interests	**52,979,293**	45,611,677	36,673,122	10,250,474	8,035,187	12,199,653
Shareholders' equity	**74,613,949**	70,447,958	52,799,537	42,017,314	32,954,538	23,851,963
Number of Shares Outstanding as at August 31						
Common shares	**40,449,006**	40,253,548	32,845,148	31,653,648	25,683,798	25,815,798



Dear shareholders,

A Year of Successes

Fiscal 2000 was a great year for Drug Royalty, a period in which we achieved a record level of royalty revenue, strong earnings growth and solid cash flow performance. Royalty revenue climbed over 68%, while earnings grew by 122% and cash flow from operations improved by 70%. All of this impressive growth is attributable to the strategic investments we made in quality products and companies.

To continue this level of growth, we recognize that the Company must develop new initiatives. To not keep pace with change would be to ignore the new forces shaping the life sciences sector. We ended the year with working capital in excess of $20 million and are committed to leveraging our strong financial position to keep pace with revolutionary forces of change. Over the next three years, our vision is to strengthen Drug Royalty as an internationally competitive player in the life sciences sector, and to become broadly recognized for the value we represent.

Royalty revenue grew impressively in fiscal 2000, to $18.2 million from $10.8 million in 1999. Royalty revenues were driven by robust royalty payments on sales of Neupogen® and Taxol® – which are sold by Amgen Inc. and Bristol-Myers Squibb Company, respectively, and royalties from Cambridge Antibody Technology (CAT). We acquired a royalty interest in a European "acute pain" product, which was also a contributor to our royalty growth. Overall, we achieved our three-year revenue goal of $20 million when other revenue items are included.

For the fiscal year, earnings per share grew 100% to $0.10 per share or $4.0 million. Cash flow from operations per share grew 50% to $0.36 per share or $14.6 million. Many of the royalty interests performed in line with, or ahead of, our expectations.

At year-end, Drug Royalty had cash of $19 million and a line of credit of over $20 million. We are thus well positioned with this cash balance and an on-going cash flow to seize emerging opportunities.

Financial Strength Built on Quality Drug Products, Technologies and Companies

Genomics and Human Monoclonal Antibodies:

Cambridge Antibody Technology

Our royalty investment portfolio traditionally has been structured to produce sustainable growth as our earlier-stage investments mature. For instance, in 1994 we made an investment in CAT, which is now a world leader in the field of antibody technology with significant strategic partnerships with leading pharmaceutical and biotechnology companies. Drug Royalty receives a percentage of all of CAT's revenues. We anticipate CAT will continue to be a major contributor to revenue growth in the years ahead.

Respiratory: **Schering-Plough**

In fiscal 2000, we also acquired a royalty interest in the revenues of desloratadine (DSL), the "next generation Claritin®", a prescription drug used as a treatment for seasonal hay fever. Schering-Plough has filed for approval to market DSL in the

GOALS WE SET	
	1997 THREE YEAR GOALS
>	$20 MILLION IN REVENUES
>	ASSETS OF $185 MILLION
>	MARKET CAPITALIZATION OF $300 MILLION
>	12 TO 15 ROYALTY INTERESTS
	NEW GOALS BY 2004
>	DOUBLE REVENUES
>	BROADER PARTICIPATION IN VALUE-ADDED ENTERPRISES
>	MARKET CAPITALIZATION OF $300 MILLION

OUR PROGRESS	
	1997 THREE YEAR GOALS
>	ACHIEVED IN 2000
>	ACHIEVED REVENUE TARGETS WITH ASSETS OF ONLY $76 MILLION
>	AVERAGE MARKET CAPITALIZATION WAS $90 MILLION IN 2000
>	ACHIEVED IN 1998
	NEW GOALS BY 2004
>	ON-GOING
>	INITIATING
>	ON-GOING

U.S. with the Food and Drug Administration (FDA) and in the European Union. Marketing approval is expected in the first quarter of 2001. We expect DSL royalty revenues to become a growing component of our portfolio in fiscal 2002 as Schering-Plough repositions their US$2.7 billion Claritin franchise onto patent-protected DSL.

Cancer: **Amgen, Bristol-Myers Squibb and Phytogen**

Our Neupogen royalty revenues continue to be a foundation of solid, steady growth, as Amgen continues to invest in the development and promotion of Neupogen. We expect a sustained-release version of Neupogen to be launched in 2002 on which Drug Royalty will also receive royalties.

Our original purchase price for the royalty interest in Taxol was calculated to include the financial effect of the anticipated U.S. genericization of Taxol. We should begin receiving royalty revenues in 2001 from Phytogen, a manufacturer of generic Taxol, as its generic product was recently approved by the FDA.

The Revolution

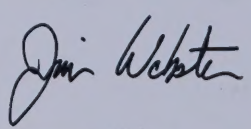
The international life sciences sector is undergoing a revolution in technology, products, information management and consumer empowerment. These forces are converging and therefore accelerating the pace of change. In order to profit from this evolving business environment, we are moving to assertively capitalize on unique growth opportunities within the pharmaceutical and biotechnology sectors – opportunities stemming from new technologies, products and services that were unheard of only a decade ago.

Drug Royalty has successfully operated within the pharmaceutical royalty market place for over eight years. Our vision is to make the next phase of our growth in the context of the even larger dynamic worldwide life sciences marketplace, where over US$300 billion in revenues are generated annually.

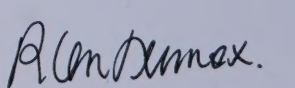
Drug Royalty in the Future

At Drug Royalty, we believe successful businesses evolve by looking beyond the familiar confines of their present markets and products for new opportunities. It is our intent to take advantage of the ongoing revolution in the life sciences industry while meeting our corporate objectives of long-term growth and profitability. Through our financial strength and business acumen, we are well positioned to recognize and respond quickly to emerging opportunities afforded by the current market environment, which in turn will reshape our business.

We would like to thank all of our shareholders, the Board of Directors and our colleagues for their support and continued confidence.



James R. Webster
President



R. Ian Lennox
Chairman

October 23, 2000

SECTOR

biotechnology

- THERAPEUTICS
- DIAGNOSTICS
- GENOMICS
- PLATFORM TECHNOLOGY
- TOOLS AND LIBRARIES

"Our vision is to strengthen Drug Royalty as an internationally competitive player in the life sciences sector, and to become broadly recognized for the value we represent."

Jim Webster, President

SECTOR

pharmaceutical

- LARGE CAP PHARMACEUTICALS
- SPECIALTY PHARMACEUTICALS
- GENERIC PHARMACEUTICALS

Our Foundation

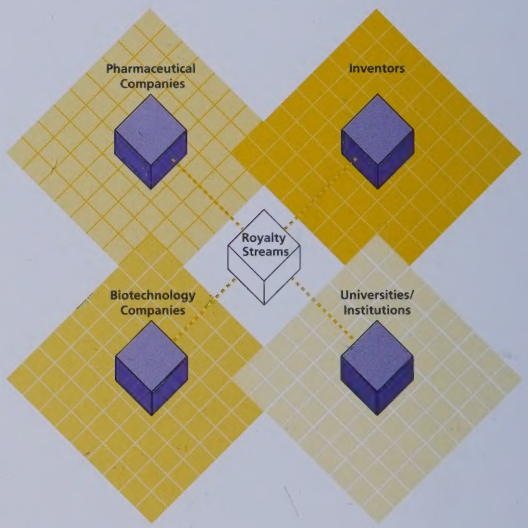
Drug Royalty's foundation of success consists of acquiring existing royalty streams from public institutions, inventors or companies, and creating new royalty contracts by providing funds to pharmaceutical and biotechnology companies in return for a percentage of top line sales. Drug Royalty will continue this existing strategy as a component within the new growth strategy.

Acquiring Royalty Streams

Drug Royalty acquires existing royalty streams from participants in the healthcare sector such as universities, inventors, and emerging biotechnology and pharmaceutical companies.

Each of these markets is a potential source of royalties from new or existing products which are patent-protected and generating revenues.

Acquiring existing royalties monetizes an asset which would otherwise be illiquid. Few people have the expertise to value these streams as Drug Royalty's team of professionals.

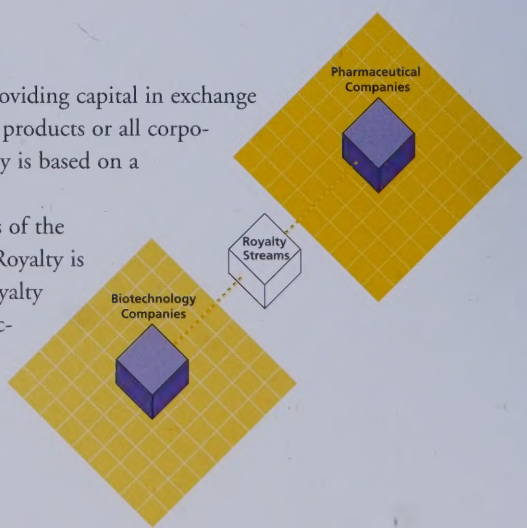


Drug Royalty acquired three royalty streams in 2000: a royalty interest in the allergy drug desloratadine, the "next generation Claritin®"; a royalty interest in the European sales of an acute pain product from a multinational pharmaceutical company; and an additional royalty interest in Neupogen®.

Creating Royalty Streams

Drug Royalty creates new royalty streams by providing capital in exchange for a percentage of sales of a product, basket of products or all corporate sales of the healthcare company. The royalty is based on a percentage of sales over a period of time.

Each deal is unique as it addresses the needs of the vendor, and the risk/return balance that Drug Royalty is willing to accept. The market for creation of royalty streams includes major pharmaceutical manufacturers, and emerging biotechnology and pharmaceutical companies.



Our Strategy

Drug Royalty's growth strategy is to assertively capitalize on unique growth opportunities within the pharmaceutical and biotechnology sectors – opportunities stemming from new technologies, products and services that were unheard of only a decade ago.

The life sciences industry can be divided into a number of fast-changing sectors and subsectors. Below are a few of the exciting areas:

SECTORS			
Biotechnology	Pharmaceutical	Medical products and services	Healthcare services
> Therapeutics > Diagnostics > Genomics > Platform Technology > Tools and Libraries	> Large Cap Pharmaceuticals > Specialty Pharmaceuticals > Generic Pharmaceuticals	> Diagnostics > Devices > E-health	> Pharmacy Benefit Managers > Contract Research Organizations > Contract Sales Organizations > Consulting Services

Unique growth opportunities will come from:

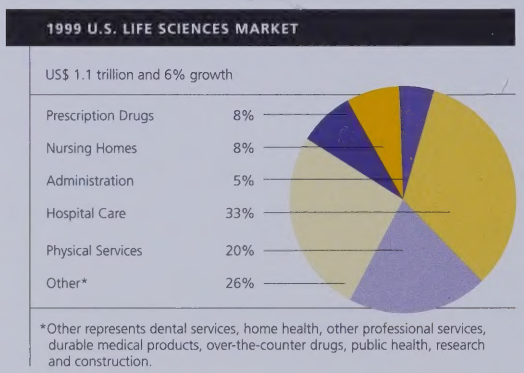
- > Biopharmaceutical
- > Diagnostics
- > Devices
- > Services
- > Platform Technology
- > Discovery Tools
- > Drug Delivery
- > E-health

Our strategy involves:

- > **Acquiring royalty streams**
  - > Pharmaceutical companies
  - > Biotechnology companies
  - > Universities / Institutions
  - > Inventors
- > **Creating royalty streams**
  - > Pharmaceutical companies
  - > Biotechnology companies

The life sciences industry is robust, strong and growing, due to the ongoing aging of our population; biotechnology tools winning the war on disease; empowerment of the consumers/patients; and the development of e-commerce affecting all aspects of business.

The worldwide healthcare market is immense and developing. It was estimated to be US$3.0 trillion in 1999. U.S. health expenditures represented over a third of the market at over US$1.1 trillion. These expenses were incurred across the following areas:



The prescription drug market generated over US$300 billion in revenues in 1999. Drug Royalty operated within a small subsection of the prescription drug market, the pharmaceutical royalty market. As a niche player, we have been very successful at acquiring and creating above-average growth from select investments in intriguing product opportunities.

In order to continue our track record of success, we must look beyond the familiar confines of the pharmaceutical royalty market and seek new opportunities. The life sciences industry is undergoing a revolution in technology, products, information management and consumer empowerment. These changes are once again producing many opportunities for significant profit within the evolving business environment. Drug Royalty is well positioned to recognize and capitalize on new opportunities as they emerge.

- A revolution is occurring in the life sciences industry… we need to evolve and capitalize on its opportunities
- New business thrusts will be extensions of the portfolio, creating a truly unique life sciences company

We have answers to your questions

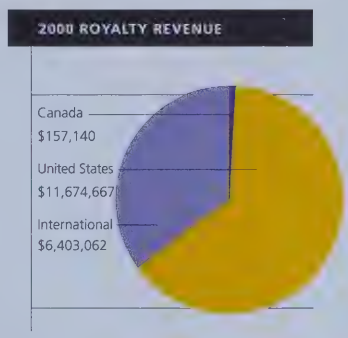
Q: How are you affected by the genericization of Taxol®?

A: In October 2000, the first generic version of Bristol-Myers Squibb's (BMS) Taxol® was introduced in the U.S. Taxol continues to retain its market exclusivity in Europe, which comprises over one-third of the total world market. BMS has indicated that its worldwide Taxol sales will decrease to US$1 billion in 2001. Drug Royalty's original purchase price for the BMS Taxol royalty included the anticipated financial effect of the genericization of Taxol.

As a hedge, we have maintained a royalty interest in Phytogen Life Sciences Inc. (Phytogen), a manufacturer of generic Taxol, as its generic product was recently approved by the Food and Drug Administration (FDA). Through sales of generic Taxol to Phytogen's strategic partner, Mylan Laboratories Inc., we will begin to receive royalty revenues from Phytogen. We anticipate the introduction of generic Taxol in May 2001 by Mylan.

Q: Why does so much of your revenue come from outside of Canada?

A: Creating and acquiring royalty revenues outside of Canada has been a deliberate strategy to generate revenues from the global pharmaceutical market. In the US$300 billion worldwide pharmaceutical market, Canada represents less than 3% of the world market. International opportunities provide significant upside potential to our business portfolio.



Q: What is your growth strategy?

A: We will leverage the Company's strong, reliable cash flows to invest in other high-growth healthcare assets. The Company will give investors full exposure to the expanding global healthcare market through a well-diversified investment vehicle. Investors will benefit from a strong, stable royalty portfolio of cash-producing assets, in addition to new proprietary assets that offer greater return potential.

Q: Does the Company have the right human resources for this expanded strategy?

A: Definitely. Our current team of experienced professionals will continue seeking royalty interests in pharmaceutical products. Investment considerations include assessment of therapeutic trends, potential to achieve regulatory approval, market size, market competition, potential market share, return on investment, stage of clinical development, management and financial structure of the firm. The expanded strategy will use the current team, assessing similar criteria, to evaluate new growth opportunities to achieve long-term growth and profitability.

Q: Where is the unrealized value in Drug Royalty?

A: There is considerable hidden value in our royalty interest portfolio. For instance, Cambridge Antibody Technology has a rheumatoid arthritis antibody treatment, D2E7, currently in Phase III clinical trials with BASF Pharma. To date, we have received very little royalty revenue from Phytogen Life Sciences Inc., which has an exclusive license and supply agreement with Mylan Laboratories Inc. Peptide Therapeutics Group plc has recently completed a pivotal Phase III efficacy trial for a yellow fever vaccine, Arilvax®, and has recently announced exciting new deals with Baxter Healthcare Corporation and the U.S. Centers for Disease Control and Prevention. We are also waiting to receive royalties on Schering-Plough Corporation's desloratadine, the "next generation Claritin®", for the treatment of seasonal hay fever. FDA approval is expected in early 2001.

Q: Why is the share price not responding to the increased revenues, cash flow and earnings?

A: Drug Royalty is a unique company with an innovative business model of acquiring and creating royalties on high-growth pharmaceutical products. Three years ago management set out a strategy for the Company and has successfully executed its completion. The Company remains financially strong and the business model has delivered on these fundamental performance measurements. Solid revenue, earnings and cashflow are precursors for a growing share price.

Q: What investor relation activities are being performed to support the share price?

A: Through the Company's internal personnel and outside advisors, the Company receives and responds to shareholder inquiries. Shareholder inquiries and concerns are dealt with promptly at the senior management level. In addition, management meets regularly with a wide range of investors, both in person and by telephone. At the Company's annual meeting of shareholders, shareholders are given the full opportunity to ask questions concerning the Company's business. Information about Drug Royalty is also available on the Company's website at www.drugroyalty.com.

NEW ACQUISITION

desloratadine

- "NEXT GENERATION CLARITIN"
- EXPECTED LAUNCH IN 2001
- TREATMENT OF HAY FEVER

2000 was a year of blockbuster deals and exciting developments building on an existing, impressive portfolio.

NEW ACQUISITION

european royalty

- ACQUIRED FROM MAJOR MULTINATIONAL PHARMACEUTICAL COMPANY
- FIRST DIRECT TRANSACTION OF THIS TYPE
- PRODUCT RANKS WITHIN TOP FIVE MOST COMMONLY PRESCRIBED PRODUCTS IN CATEGORY
- 50 MILLION PATIENTS GLOBALLY
- 1999 GROWTH RATE 50% OVER PRIOR YEAR

FOLLOW-ON ACQUISITION

neupogen

- NEW SUSTAINED-DURATION VERSION OF PRODUCT IN PHASE III DEVELOPMENT
- GREATER CONVENIENCE
- IMPROVED COMPLIANCE
- SIGNIFICANT MARKET GROWTH OPPORTUNITY

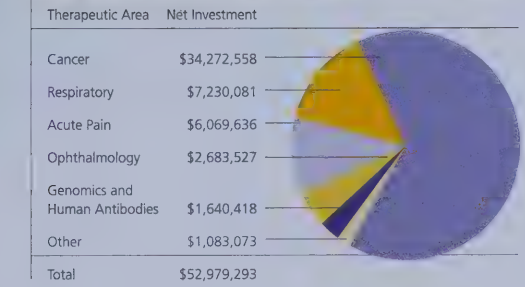
Summary of Royalty Interests

as at August 31, 2000

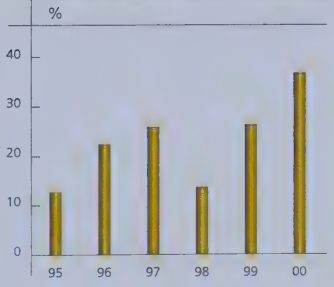
Therapeutic Area	Description of Products, Companies and Territory in which our Royalty Interest Applies	Net Investment Interest by DRC	Nature of Royalty	Commercial and Clinical Status
Cancer	**Amgen Inc.** Neupogen® (Worldwide revenue)	$18,961,279	• undisclosed % of revenue on Neupogen for 8 years	• U.S. Food and Drug Administration ("FDA") approved for prevention of infection in cancer patients undergoing chemotherapy, bone marrow transplant patients, acute myeloid leukemia patients and others suffering from various forms of neutropenia • Neupogen is also used for AIDS-related neutropenia and patients with severe infectious disease settings such as pneumonia • Phase III clinical trials of sustained-duration Neupogen molecule, SD/01
	Bristol-Myers Squibb Company Taxol® (Worldwide revenue)	$12,911,279	• undisclosed % of revenue on Taxol for 13 years	• FDA and European Union approved for treatment of ovarian, breast and non-small cell lung cancer, and AIDS-related Kaposi's sarcoma • there are approximately 185 trials ongoing including 48 Phase III trials for indications such as small cell lung, bladder, prostate, urinary tract, colon, male germ cell, peritoneal, head and neck, esophageal, endometrial and cancers of unknown origin
	Phytogen Life Sciences Inc. Paclitaxel (Worldwide revenue)	$2,400,000	• undisclosed % of revenue for 15 years • 766,104 convertible preferred shares • 11,900 common shares • 300,000 preferred share warrants at $4.00 expiring on July 31, 2002 • 324,000 common share warrants at $3.25 to $4.00 expiring up to March 10, 2007	• FDA and Canadian Health Protection Branch approved cGMP process and facility for the production of paclitaxel • license partner, Mylan, received FDA approval in September 2000 for its generic Taxol product for breast and ovarian cancer • Mylan is expected to commence marketing in May 2001, following the 180 day exclusivity period afforded IVAX Corporation by the FDA
Respiratory	**Schering-Plough Corporation** Desloratadine (Worldwide revenue)	$7,230,081	• undisclosed % of revenue on desloratadine for 14 years • 200 common shares	• NDA for desloratadine for the treatment of seasonal allergic rhinitis was submitted to the FDA and European Union in October 1999 • European Union Committee for Proprietary Medicinal Products recommended approval of desloratadine for seasonal allergies in October 2000 • approval in the U.S. and European Union is expected in early 2001
Acute Pain	**Multinational Pharmaceutical Company** "Acute Pain" Product	$6,059,636	• undisclosed % of revenue on "acute pain"product in a major European territory for 2.5 years	• approved "acute pain" product marketed in a major European territory
	Paladin Labs Inc. Morphine SR- OD and BD (Canadian revenue)	$10,000	• sublicensed rights to slow-release morphine, once per day and twice per day, for an undisclosed % of revenue for 20 years • 100,000 common share warrants exercisable at $3.00 expiring May 4, 2003	• phase III clinical trials

Therapeutic Area	Description of Products, Companies and Territory in which our Royalty Interest Applies	Net Investment Interest by DRC	Nature of Royalty	Commercial and Clinical Status
Genomics and Human Antibodies	**Cambridge Antibody Technology Group plc** Human Antibodies for various applications (Worldwide revenue)	$1,640,418	• undisclosed % of all CAT's revenues for 15 years	• phase III clinical trials of rheumatoid arthritis antibody program, D2E7 • phase II clinical trials of glaucoma surgery antibody program • phase I clinical trials of fibrosis antibody program completed • phase I clinical trials of autoimmunity antibody program
Vaccines	**Peptide Therapeutics Group plc** Novel Vaccines and Drug Discovery Platform Technologies (Worldwide revenue)	$720,393	• undisclosed % of revenues in Peptide Therapeutics Group plc from University of Birmingham • 50,000 ordinary shares	• phase III clinical trials for Arilvax®, a yellow fever vaccine • phase II clinical trials for the oral typhoid vaccine and H. pylori vaccine • phase I clinical trials for C. difficile vaccine, Oral ETEC vaccine and Japanese Encephalitis vaccine
Ophthalmology	**UltraVision Corp.** Specialty Contact Lens and Lens Care Products (Worldwide revenue)	$2,683,527	• undisclosed % of revenues for 12 years • 10,657 common shares • 50,000 common share purchase warrants at $1.68 expiring January 28, 2001	• FDA approved contact lens products: Specialty Progressive® Disposable, Specialty Choice A.B.® Disposable, Specialty-T-FRP®, Specialty 55, Specialty Masquerade, Specialty T Disposable, Specialty Sport A.B., UltraCon®, EpiCon™ and a UV blocking contact lens product line
Women's Health	**Searle Canada** Combination and Single Entity Hormone Replacement Patches (Canadian revenue)	Nil	• sublicensed rights to Combination and Single Entity Hormone Replacement Patches for Canada for undisclosed royalties	• phase III clinical trials in the U.S.
Cardiovascular	**Spectral Diagnostics Inc.** Method and Device for Diagnosing and Distinguishing Chest Pain (Worldwide revenue)	Undisclosed	• undisclosed % of revenue	• royalty-based panel tests are approved for marketing by the FDA
Miscellaneous	**Amarin Corporation** (formerly Ethical Holdings plc) All products of Amarin (Canadian revenue)	$20,000	• 15% of Canadian royalties generated by Amarin's products for 20 years	• products involving oral slow-release therapy and transdermal patch products in various stages of development
Other	**Public and Private Companies** Drug Delivery / Cancer / Devices	$207,454	• various equity interests	• primarily products in pre-commercialization phase

SUMMARY OF ROYALTY INTERESTS



ROYALTY REVENUE AS A PERCENT OF AVERAGE ROYALTY INTEREST



Our Royalty Portfolio

SCHERING-PLOUGH CORPORATION

SUMMARY

- Drug Royalty investment: $7.2 million in 2000 for a percentage of worldwide revenues over fourteen years in the "next generation Claritin®", desloratadine (DSL)
- Over the life of the agreement, Drug Royalty may earn up to $50 million in royalty revenue
- Claritin, used for the treatment of seasonal hay fever, generated worldwide sales of US$2.7 billion in 1999
- FDA and European Union approval of DSL is expected in early 2001

Schering-Plough Corporation, which is a recognized leader in biotechnology, genomics and gene therapy, trades on the New York Stock Exchange under the symbol SGP. The company's lead product, Claritin – the largest selling prescription hay fever product commanding a 45% market share – had worldwide sales in 1999 of US$2.7 billion, and for the nine months ended September 30, 2000 sales were US$2.3 billion, an increase of 12% over the prior period.

Claritin is expected to lose its market exclusivity in the U.S. by December 2002. The active metabolite of Claritin is desloratadine (DSL), which is patent protected until 2014. DSL is a key element in Schering-Plough's strategy to protect and expand the allergy franchise established by Claritin. Schering-Plough has filed for approval to market DSL in the U.S. with the FDA and in the European Union. Marketing approval is expected in the first quarter of 2001.

DSL is expected to have superior characteristics compared to competing drugs, including Claritin. Possible advantages include faster onset of action and/or higher potency. There is also some evidence that the drug may have natural decongestant activity, which current competing products do not have.

Drug Royalty receives a royalty on the worldwide sales of DSL. These royalty revenues are expected to become a growing component of our portfolio in fiscal 2002 as Schering-Plough repositions its US$2.7 billion Claritin franchise onto patent-protected DSL.

CAMBRIDGE ANTIBODY TECHNOLOGY GROUP PLC

SUMMARY

- Drug Royalty investment: £1.5 million in 1994 for 15-year royalty agreement on all revenues
- Over the remaining life of the agreement, Drug Royalty may earn up to $30 million in royalty revenue
- Rheumatoid arthritis antibody program, D2E7, is currently in Phase III
- Licenses and collaborative agreements with Eli Lilly, Pfizer, Wyeth-Ayerst, AstraZeneca, Human Genome Sciences, ICOS, Genetics Institute, Genentech, BASF Pharma, Oxford GlycoSciences, Pharmacia

Cambridge Antibody Technology Group plc (CAT) is a world leader in the field of human antibodies and trades on the London Stock Exchange under the symbol CAT. The company is using its proprietary technologies in fully human monoclonal antibodies for drug discovery and drug development.

CAT has an extensive phage display antibody library, currently incorporating 100 billion distinct antibodies. This library forms the basis for the company's strategy to develop a portfolio of clinical development programs. The company is also generating revenues through collaborations with major international pharmaceutical and biotechnology companies using their antibody-based functional genomics platform for the validation of drug targets. Four fully human therapeutic antibodies developed by CAT are at various stages of clinical trials. D2E7, isolated and optimized by CAT in collaboration with BASF Pharma (who are responsible for clinical development and marketing), is currently in Phase III trials for rheumatoid arthritis, making it the first fully human monoclonal antibody to enter this stage of clinical assessment.

Drug Royalty receives a royalty percentage on all revenues received by CAT.

AMGEN INC.

SUMMARY

- Drug Royalty investment: $27.2 million in 1998 and 2000 for a percentage of worldwide revenues over eight years, primarily from the U.S., in the leading immune drug, Neupogen®
- Worldwide sales of US$1.3 billion in 1999
- Sustained-duration Neupogen, SD/01, currently in phase III clinical trials, may provide up to US$400 million in incremental sales according to some analysts
- Used to prevent infection in patients by boosting the production of infection-fighting white blood cells

Amgen Inc. is the world's leading biotechnology company and trades on the Nasdaq Stock Market under the symbol AMGN. One of the company's most successful products, Neupogen, had worldwide sales in 1999 of US$1.3 billion, and for the nine months ended September 30, 2000 sales were US$913 million, an increase of 1% over the prior period. Neupogen sales were negatively impacted in 2000 by several factors including foreign exchange effects and low inventory levels at major wholesalers from Y2K stocking that occurred in 1999. Amgen expects 2000 sales of Neupogen to be slightly less than 1999, but long-term sales projections for Neupogen are very positive due to two improved Neupogen products, discussed below.

During the year, the FDA approved Neupogen SingleJect™, a prefilled syringe containing a more concentrated formulation of Neupogen. Amgen believes that a significant percentage of patients are not receiving the appropriate dose of Neupogen and that Neupogen SingleJect will be attractive to these patients and their caregivers.

Amgen's sustained-duration Neupogen product, SD/01, is intended to provide greater convenience and improved compliance of once-per-cycle dosing. Phase III trials of SD/01 began in July 1999 in the U.S., Europe, Canada and Australia. Amgen anticipates filing regulatory submissions by mid-2001. Drug Royalty expects SD/01 to be commercialized in 2002. Some equity analysts believe that, due to its selling point of greater convenience, the product could account for US$400 million in incremental sales. This is expected to be a significant market growth opportunity for the sales of Neupogen, thereby increasing royalty revenue received by Drug Royalty.

BRISTOL-MYERS SQUIBB COMPANY

SUMMARY

- Drug Royalty investment: $15.5 million in December 1998 for a percentage of revenues over thirteen years from worldwide sales of Taxol®
- Largest selling anti-cancer drug with worldwide sales in 1999 of US$1.5 billion
- Continues to retain its market exclusivity in Europe
- Approved to treat breast, ovarian and non-small cell lung cancer, and Kaposi's sarcoma

Bristol-Myers Squibb Company (BMS) is a leading international healthcare and consumer products company, which trades on the New York Stock Exchange under the symbol BMY. The company's world-leading oncology franchise includes the world's top selling anti-cancer agent, Taxol. The product had worldwide sales of US$1.5 billion in 1999 and US$1.2 billion for the nine months ended September 30, 2000, which represents 14% growth over the prior period. About two-thirds of Taxol sales are generated in the U.S. market.

In October 2000, BMS Taxol was genericized in the U.S., though Taxol continues to retain its market exclusivity in Europe, which comprises over one-third of the total world market for the drug. BMS expects its worldwide Taxol sales to decrease to US$1 billion in 2001. Drug Royalty's original purchase price and estimated return for the BMS Taxol royalty included the anticipated financial effect of the genericization of Taxol.

The U.S. National Cancer Institute is presently engaged in 185 clinical trials using Taxol, some 48 of which are at the Phase III stage, for indications such as small cell lung, prostate, bladder, urinary tract, colon, male germ cell, peritoneal, head and neck, esophageal, endometrial and cancers of unknown origin.

Drug Royalty receives a percentage of revenues on the worldwide sales of Taxol.

PHYTOGEN LIFE SCIENCES INC.

SUMMARY

- Drug Royalty investment: $1.5 million in 1995 and a further $3.3 million in 1997 and 1998 for a percentage of generic Taxol revenues for 15 years
- Signed exclusive license and supply agreement in July 1996 with Mylan Laboratories Inc., a major U.S. generic drug company with sales of US$790 million in 2000
- Mylan received FDA approval to manufacture and market paclitaxel beginning April 2001

Phytogen is a private company established in 1990 near Vancouver, Canada, focused on production of the anti-cancer drug, paclitaxel. Taxol® is a registered trademark of Bristol-Myers Squibb Company's brand of paclitaxel.

Phytogen has licensed the North American marketing rights for its paclitaxel to Mylan Laboratories Inc. Mylan received FDA approval to manufacture and market paclitaxel beginning April 2001. Phytogen is in discussions with other potential marketing partners concerning worldwide development, registration, and distribution.

Drug Royalty receives a royalty percentage on all paclitaxel-related revenues received by Phytogen.

ULTRAVISION CORP.

SUMMARY

- Drug Royalty investment: US$2.5 million in November 1997 for a percentage of revenues over 12 years
- Worldwide sales of $17.1 million in 2000, a 53% increase over the prior year
- Initiated production in their state-of-the-art manufacturing and distribution facility in St. Hubert, Quebec in fall of 2000

UltraVision Corp. is a Canadian public company trading on the Canadian Venture Exchange under the symbol UVC. The company is an aggressively growing manufacturing, distributing and marketing company of unique and innovative specialty contact lens products and technologies.

In the fall of 2000, UltraVision initiated production at their state-of-the-art contact lens manufacturing and distribution facility in St. Hubert, near Montréal, Quebec. This manufacturing initiative was undertaken by UltraVision as part of a worldwide strategic plan that will allow UltraVision to access all market segments within the US$4.5 billion contact lens industry. The facility will have an eventual production capacity expected to exceed 150 million contact lenses annually.

Drug Royalty receives a royalty on the worldwide revenues earned by UltraVision and its subsidiaries.

PEPTIDE THERAPEUTICS GROUP PLC

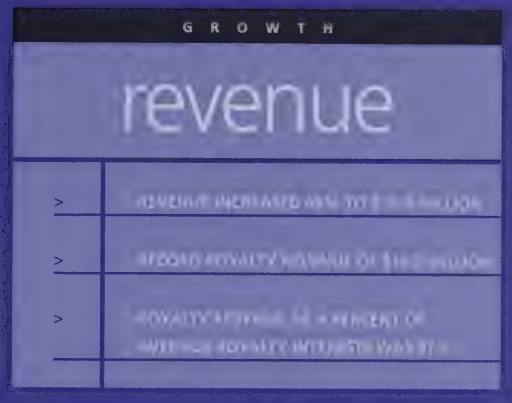
SUMMARY

- Drug Royalty investment: £0.4 million in November 1997 for a royalty interest and other royalty-related interests
- Yellow fever vaccine, Arilvax®, has completed Phase III trials; FDA submission expected in 2001
- Collaborations with Baxter, SmithKline Beecham, Pfizer, Eli Lilly, Novartis, Medeva, Aventis Pasteur, Peptimmune, Genzyme

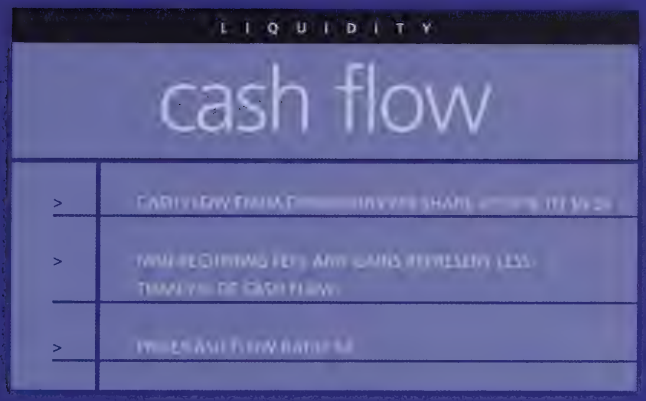
Peptide Therapeutics Group plc. is a British biopharmaceutical company that develops vaccines to prevent and treat infectious diseases. Peptide is listed on the London Stock Exchange under the symbol PTE.

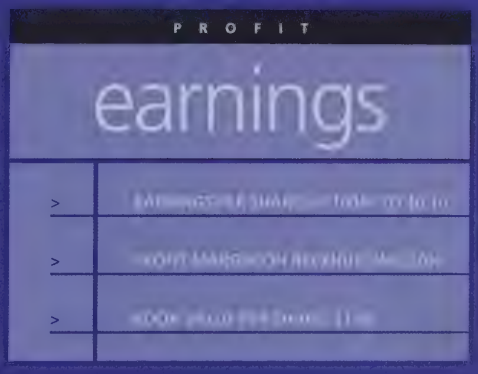
Peptide's vaccine product candidates in clinical trials include a yellow fever vaccine, oral typhoid vaccine, H. pylori vaccine, C. difficile vaccine, Oral ETEC vaccine and Japanese Encephalitis vaccine. Peptide has entered into alliances with major pharmaceutical companies to use their capabilities and expertise to complete the regulatory development, manufacturing and marketing of products. The company also has several technology platforms that provide the basis for further vaccine product candidates.

Drug Royalty, through an agreement with the University of Birmingham, shares a percentage of Peptide's revenues.



"Over the longer term: Growth in a stock's price is driven by growth in a company's earnings which is driven by growth in the company's revenues"





Management's Discussion and Analysis

The following discussion and analysis for the years ended August 31, 2000 and August 31, 1999 is provided by management to assist shareholders in their review of Drug Royalty Corporation Inc. and should be read in conjunction with and is based on the audited consolidated financial statements and accompanying notes. The financial statements are prepared in accordance with generally accepted accounting principles in Canada and all amounts are in Canadian dollars unless otherwise stated.

Drug Royalty, a publicly traded Canadian company, is building an international royalty portfolio of high-growth pharmaceutical products. The Company's business strategy has focused on obtaining royalty interests in late-stage and market ready pharmaceutical products. Royalty revenues from these royalty interests are based on a percentage of sales of pharmaceutical and biotechnology products by other parties.

The Company creates and acquires royalty agreements and royalty-related interests based on management's assessment of the opportunities for the products, current therapeutic trends, patent life, potential market share, market size, market competition, ability to achieve regulatory approval, scientific results and return on investment. The Company's investment review process consists of a review from the Investment Committee of significant opportunities recommended by management, before approval by the Board of Directors.

2000 Overview

Fiscal 2000 delivered strong growth in earnings, revenues and cash flow. Financial highlights include significant improvements over 1999 as follows:

- total revenue of $19.9 million – up 68%
- record royalty revenue of $18.2 million – up 68%
- earnings per share of $0.10 – up 100%
- cash flow from operations per share of $0.36 – up 50%

"Key financial measures of revenue, earnings and cash flow continue to increase, and illustrate sustainable growth when compared to previous years."

During the year, Drug Royalty acquired three investments in royalty interests totalling $17.4 million. The largest acquisition was a royalty interest in the European sales of an undisclosed "acute pain" product from a major multinational pharmaceutical company for $8.7 million. An interest was also acquired in the allergy drug desloratadine (DSL) for $7.2 million, which Schering-Plough Corporation has filed for marketing approval in the U.S. with the Food and Drug Administration (FDA) and in the European Union. During the year, we also added to our Neupogen® royalty interests. These acquisitions were financed through available cash. At year end, there was cash of $19.0 million and a credit facility of $23.3 million in place for financing additional opportunities.

Revenues

In fiscal 2000, Drug Royalty achieved record royalty revenues of $18.2 million driven by the following interests:

- worldwide pharmaceutical sales of Amgen's Neupogen
- worldwide sales of Bristol-Myers Squibb's (BMS) anti-cancer drug Taxol®
- European sales of an acute pain product
- contract and license revenues received by Cambridge Antibody Technology Group plc (CAT)

Royalty revenues in 2000 grew by 68% over 1999 levels. This growth is attributable to a full year of royalty revenues from the European acute pain product and organic growth among all our royalty interests. Geographically, growth is coming from revenues sourced outside Canada, as follows:

	2000	1999	% Change
Canada	**$ 157,140**	$ 475,520	(67%)
United States	**11,674,667**	10,214,946	14%
International	**6,403,062**	144,344	4,336%
	$ 18,234,869	$ 10,834,810	68%

"Drug Royalty is an international company, as royalty revenue from outside Canada represented over 90% of the total."

The fees and gain on sale of royalty interests of $0.7 million was primarily due to a sale of CAT shares resulting in a gain of $0.6 million. The remaining $0.1 million was a gain on the exercise and subsequent sale of ILEX Oncology, Inc. warrants. In 1999, the fees and gain on sale of royalty interests of $0.3 million was primarily due to fee income of $0.5 million earned on the co-investment by a third party in the Taxol royalty interest, partially offset by a loss on the sale of warrants in Dura Pharmaceuticals Inc. of $0.2 million.

Interest and other revenues increased by 42% to $0.9 million in 2000 from $0.7 million in 1999. This is attributable to higher cash and short-term investment balances yielding higher rates of return throughout the year.

Expenses

Administrative expenses increased by 1% in 2000 to $2.5 million compared with $2.4 million in 1999. Drug Royalty employed nine people at the end of fiscal years 2000 and 1999.

Amortization, write-downs and provisions amounted to $9.6 million in 2000 compared with $6.2 million in 1999, an increase of 56%. This increase is primarily due to the acquisition of two royalty interests during fiscal 2000. Amortization on the newly acquired interests totalled $2.8 million in 2000. Amortization of the DSL royalty interest has not begun as commercialization has not commenced.

"Amortization increased as a result of two new royalty interest acquisitions."

The Company recorded writedowns and provisions in the amount of $1.5 million during the year. Writedowns of $0.65 million were recorded against common and preferred shares of royalty-related interests. A provision of $0.1 million was established against a royalty interest to reflect an impairment in the value due to a delay in achieving projected sales. A final provision of $0.78 million was established against a royalty interest to reflect an impairment in value due to a delay in commercialization.

Write-downs and provisions against royalty interests are reviewed regularly based on clinical status, market conditions, company viability and technological assessments, but increases in the value of royalty interests are not recorded until actually realized.

Results of Operations

For the year ended August 31, 2000, cash flow from operations increased to $14.6 million or $0.36 per share from $8.6 million or $0.24 per share in 1999. This significant increase is the result of higher royalty revenues from the European acute pain product and organic growth from Amgen, UltraVision and CAT. If the 2000 and 1999 sale of royalty-related interests are excluded, cash flow from operations in each year was $13.1 million or $0.33 per share and $8.1 million or $0.24 per share, respectively.

The Company reported net earnings of $4.0 million or $0.10 per share compared with $1.8 million or $0.05 per share in 1999.

Capital Expenditures

During 2000, Drug Royalty invested a total of $17.4 million in the acquisitions of royalty interests resulting in holdings of $53.0 million after amortization, write-downs and provisions, compared with $45.6 million at the end of the prior year. The increase is mainly due to the purchase of the royalty interest in the European sales of an acute pain product from a multinational pharmaceutical company in the amount of $8.7 million, and a royalty interest in the allergy drug DSL, to be marketed by Schering-Plough Corporation, for $7.2 million. In 1999, the Company invested $15.6 million in new acquisitions, the major one being an interest in BMS's cancer drug Taxol.

At the end of 2000, the Company indicated that it is aggressively pursuing accelerated growth opportunities within the pharmaceutical and biotechnology sectors.

Liquidity and Financial Resources

"We have $19 million in cash plus a $20+ million credit facility available for acquiring additional investments."

As at August 31, 2000, Drug Royalty's current assets exceeded its current liabilities by $20.8 million compared with $23.9 million as at August 31, 1999. The decrease in working capital is the result of an income tax liability of $0.9 million at the end of 2000 compared with an income tax recovery of $2.1 million at the end of fiscal 1999. A total of $1.9 million of the 1999 income tax receivable was received in 2000.

On March 7, 2000, the Company amended its loan agreement with a Canadian chartered bank (Bank). Under the amended agreement, the Bank provided the Company a three-year reducing term facility of $30 million or the equivalent amount in U.S. dollars (Bridge Loan) with interest charged at LIBOR plus 200 basis points. The Company and its subsidiaries have granted the Bank a general security interest on their respective assets. All borrowings outstanding under the Bridge Loan shall be repaid in equal, consecutive, quarterly principal payments until the credit facility is fully repaid. As at August 31, 2000, the Company had no amounts outstanding against the Bridge Loan and had credit available in the amount of $23.3 million.

Drug Royalty ended the year with $19.0 million in cash available for investment purposes. Future growth and expansion strategies will be funded internally as well as through the use of the Company's Bridge Loan. The Company did not carry any debt at the end of fiscal years 2000 and 1999.

Investment Risk

The continued profitability of Drug Royalty is subject to a number of risk factors including successful product development and commercialization by investee companies, third party funding of investee company activities, patent protection disputes, foreign currency risk, changes in tax legislation, possible default or breach of contract by investee companies and reliance on key personnel.

The Company's assessment of product development risk and commercial success is based upon scientific, clinical and market due diligence. As many of Drug Royalty's investee companies have pre-existing agreements with development partners, assessment of the Company's return on investment includes anticipated contributions by these development partners. Investment agreements are structured to allow recovery of the invested capital over a reasonable period based on the Company's due diligence.

Drug Royalty's investment in royalty interests exposes the Company to the financial viability of the investee company. Drug Royalty is exposed to the risk of financial loss as a result of an investee company defaulting on obligations to Drug Royalty. The Company's exposure to such losses is limited to its capital outlay. The Company limits exposure to loss by diversifying royalty interests by country, therapeutic area and company. In some cases, Drug Royalty may obtain interests in other assets in the event of default, but generally royalty interests relate to revenues from specified products or technologies and are unsecured.

The generation of royalty revenue is generally predicated on the strength of the investee company's patent protection. Due to the highly competitive nature of the pharmaceutical industry, the potential for parallel developments of similar products and high stakes of being first to market, the validity or breadth of a patent is often challenged. Drug Royalty may hedge its exposure to some of this risk by acquiring an interest or other equity position in a competing investment.

A growing portion of Drug Royalty's investments are made in foreign countries and the majority of its royalty agreements require payments in foreign currencies, thereby creating foreign exchange risk. Therefore significant fluctuations in the foreign currencies can affect the outcome of newly acquired royalty interests as well as the revenue realized from established interests. When appropriate, management enters into foreign exchange hedges, however, the Company does not speculate on foreign currency movements.

The Company derives significant royalty revenues from foreign jurisdictions. A change in the tax legislation or a change in any relevant tax treaty could affect Drug Royalty's profitability on a specific transaction.

Periodically, disagreements may arise on the interpretation of contracts. Management views these incidents as part of the normal course of operations. The Company's contractual rights against certain vendors, including inventors, may have limited recourse. Management minimizes the risk of such losses through its due diligence into the vendor's original rights on the royalty interest, the patent protection of the product and the license agreements in place.

Management has the responsibility to identify, cultivate, manage and develop new royalty interest opportunities. The loss of services of certain members of management or of the investee companies could adversely affect the Company.

Funding Risk

The Company is dependent upon its ability to secure funding for additional royalty interest acquisitions. Drug Royalty completed a private placement in 1999 and continues to explore new sources of funding. There can be no assurance that the total required financing will be available for a specific investment, therefore co-investing relationships may be utilized. The Company maintains strong relationships with its institutional investors to ensure ready access to capital to fund its strategic objectives.

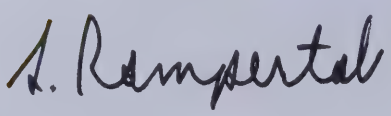
Outlook

"The key to Drug Royalty's future is to leverage the current financial strength through new opportunities with the promise of above average returns."

With the successful completion of our three-year strategic plan, the ongoing goal is to take advantage of the current revolution in the life sciences industry through a strategic balance of financial strength and business acumen. These opportunities must have the promise of earning an above average return from emerging healthcare services, products and technologies.

Royalty revenue growth is expected to be sustained from Amgen on the sales of Neupogen, from the Multinational Pharmaceutical Company on the European sales of their acute pain product, from Phytogen on the sales of generic Taxol and from Schering-Plough on sales of DSL, the "next generation Claritin®". Additional upside may develop from our portfolio through earlier stage products and technologies such as our fifteen year royalty agreement with CAT, and our twelve year royalty agreement with UltraVision, as their Quebec manufacturing facility goes online and backorders are filled.

Drug Royalty's goal is to double annual revenue from the current level by 2004. We expect a combination of new royalty interests, acquisitions and direct investments in the life sciences industry to drive the long-term growth of our business and add to shareholder value.

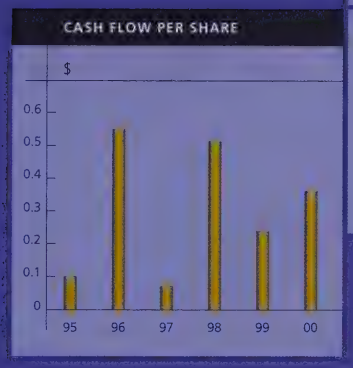


Shameze Rampertab
Director, Finance and Secretary-Treasurer

HIGHLIGHTS

cash flow

- WHEN FEES AND GAIN ON SALE OF ROYALTIES ARE EXCLUDED CASH FLOW HAS INCREASED AT A COMPOUNDED ANNUAL GROWTH RATE OF 64%
- CASH FLOW HAS BEEN POSITIVE EVERY YEAR SINCE DRC WAS LISTED ON THE TSE SEVEN YEARS AGO



We are pleased to present the consolidated financial statements and accompanying notes for the years ended August 31, 2000 and 1999

HIGHLIGHTS

royalty revenue

- THE ROYALTY MODEL IS PRODUCING IMPRESSIVE RETURNS
- ROYALTY REVENUE HAS INCREASED AT A COMPOUNDED ANNUAL GROWTH RATE OF 62%
- ROYALTY REVENUE AS A PERCENTAGE OF AVERAGE ROYALTY INTERESTS FOR 2000 WAS 37%

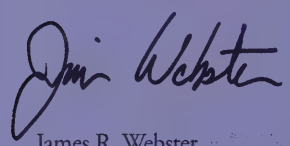
Management's responsibility for financial reporting

The accompanying consolidated financial statements of Drug Royalty Corporation Inc. have been prepared by management in accordance with accounting principles generally accepted in Canada. The most significant of these accounting principles are described in Note 2 to the financial statements.

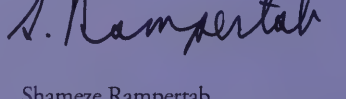
Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected in the financial statements. The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. The financial information throughout the text of this annual report is consistent with the information presented in the financial statements.

The Board of Directors has appointed an Audit Committee consisting of three outside directors. The committee meets periodically during the year to review with management and the auditors any significant accounting, internal control and auditing matters and to review and finalize the annual financial statements of the Company along with the external auditors' report prior to the submission of the financial statements to the Board of Directors for final approval.

The Company's external auditors, PricewaterhouseCoopers LLP, conduct an independent examination on behalf of the shareholders, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. This examination encompasses an understanding and evaluation by the auditors of the Company's accounting and internal control systems as well as the obtaining of a sound understanding of the Company's business. Their report outlines the scope of their examination and their opinion on the financial statements of the Company. The external auditors have full access to management and the Audit Committee of the Board.



James R. Webster
President



Shameze Rampertab
Director, Finance and Secretary-Treasurer

September 22, 2000

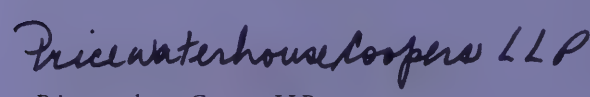
Auditors' report

To the Shareholders of Drug Royalty Corporation Inc.

We have audited the consolidated balance sheets of Drug Royalty Corporation Inc. as at August 31, 2000 and 1999 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.



PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Ontario

September 22, 2000

Consolidated Financial Statements

Consolidated Balance Sheets as at August 31, 2000 and 1999

	2000	1999
Assets		
Current Assets		
Cash and short-term investments	$ 19,040,002	$ 20,059,922
Accounts receivable	3,544,834	2,615,662
Income taxes receivable	–	2,094,551
Other assets	84,871	62,669
	22,669,707	24,832,804
Royalty Interests (note 4)	52,979,293	45,611,677
Capital Assets	114,996	166,522
Deferred Income Taxes (note 10)	704,818	785,391
	$ 76,468,814	$ 71,396,394
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 918,437	$ 948,436
Income taxes payable	936,428	–
	1,854,865	948,436
Commitments and Contingent Liabilities (note 9)		
Shareholders' Equity		
Capital Stock (note 6)	53,032,413	52,869,252
Retained Earnings	21,581,536	17,578,706
	74,613,949	70,447,958
	$ 76,468,814	$ 71,396,394

Signed on behalf of the Board

R. Ian Lennox, Director

Calvin R. Stiller, Director

Consolidated Statements of Operations and Retained Earnings

for the years ended August 31, 2000 and 1999

	2000	1999
Revenues		
Royalties	$ 18,234,869	$ 10,834,810
Fees and gain on sale of royalty interests (note 4)	678,337	325,893
Interest and other	945,752	667,223
	19,858,958	11,827,926
Expenses		
General and administration	2,490,036	2,460,162
Amortization, write-downs and provisions	9,642,399	6,185,935
Financial	612,330	43,709
	12,744,765	8,689,806
Earnings Before Income Taxes	7,114,193	3,138,120
Income taxes (note 10)	3,111,363	1,333,166
Net Earnings for the Year	4,002,830	1,804,954
Retained earnings – beginning of year	17,578,706	15,773,752
Retained Earnings – End of Year	$ 21,581,536	$ 17,578,706
Basic Earnings Per Share (note 7)	$ 0.10	$ 0.05
Fully Diluted Earnings Per Share (note 7)	$ 0.10	$ 0.05
Weighted average number of shares outstanding (note 7)	40,410,839	35,350,048

Consolidated Statements of Cash Flows

for the years ended August 31, 2000 and 1999

	2000	1999
Cash Provided By (Used In):		
Operating Activities		
Net earnings for the year	**$ 4,002,830**	$ 1,804,954
Add (deduct) items not affecting cash:		
Amortization, write-downs and provisions	**9,642,399**	6,185,935
(Gain) loss on sale of royalty interests	**(678,337)**	229,157
(Gain) loss on sale of capital assets	**(197)**	543
Foreign exchange loss	**485,784**	21,999
Proceeds from sale of royalty interests	**1,140,929**	318,343
Cash flow from operations	**14,593,408**	8,560,931
Deferred income taxes	**80,573**	1,595,533
Foreign exchange loss	**(485,784)**	(21,999)
Net change in non-cash working capital balances related to operations (note 3)	**2,049,606**	(9,520,249)
	16,237,803	614,216
Financing Activities		
Bank indebtedness	**–**	5,875,020
Repayment of bank indebtedness (note 5)	**–**	(5,875,020)
Issue of shares, net of expenses	**(37,423)**	15,134,059
Exercise of warrants and options	**200,584**	128,484
	163,161	15,262,543
Investing Activities		
Purchase of royalty interests	**(17,397,169)**	(15,598,615)
Purchase of capital assets	**(24,075)**	(8,420)
Other proceeds	**360**	150
	(17,420,884)	(15,606,885)
(Decrease) Increase in Cash and Short-Term Investments	**(1,019,920)**	269,874
Cash and short-term investments – beginning of year	**20,059,922**	19,790,048
Cash and Short-Term Investments – End of Year	**$ 19,040,002**	$ 20,059,922

1. Nature of the Company

Drug Royalty Corporation Inc. ("Drug Royalty" or "Company") is a public company incorporated under the Canada Business Corporations Act and is currently traded on the Toronto Stock Exchange. Drug Royalty primarily provides unique financial solutions to life sciences organizations in return for royalty interests. The Company's operations are located in North America from which it seeks opportunities worldwide.

2. Accounting Policies

Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, DRC USA, Inc. and Drug Royalty USA, Inc. All inter-company transactions have been eliminated.

Use of significant accounting estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue
Royalty revenue is recognized as earned according to the terms of contracts entered into with life sciences organizations. Royalty revenue includes a percentage of license fees, milestone payments, royalties and sales revenue. Other revenue is recognized when amounts are realized with respect to other contractual entitlements and sale of shares, warrants or royalty interests when earned and when receipt is reasonably assured.

Royalty interests
Royalty agreements are recorded at cost and are amortized over their expected useful lives using the straight-line method coincident with the commencement of royalty revenue from commercialized products. The revenue-producing interests from commercialized products are amortized over a period of one to thirteen years based on current market projections and technological assessment. In circumstances when revenue is earned as a percentage of license fees and milestone payments from products in preclinical and clinical development stages, royalty interests are amortized to the extent of revenue recognized, until the commencement of commercial production. Provisions are made when possible impairment is identified in respect of royalty interests. Write-offs are made when it is determined that the carrying amount will not be recoverable over the remaining life of the agreement.

In certain transactions, the Company may receive other royalty-related interests, which are recorded at cost. Such interests include common shares, preferred shares, warrants and debentures. When there has been a loss in value that is other than temporary in nature, a write-down is established. Gains and losses on disposition of royalty-related interests are recorded when realized.

The recoverability of expenditures on royalty interests is uncertain, and is dependent upon regulatory approval and commercial viability of the products under royalty agreement and on the ability of the developer to bring the products to market.

Fair value of financial instruments
Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and best evidenced by a quoted market price.

The fair value of revenue-producing royalty interests is not practicable to determine with sufficient reliability due to the uncertain nature of the revenue streams and therefore no attempt to disclose this information has been made.

The fair value of the royalty-related interests is based on quoted market prices for those or similar interests. For companies that are privately held, there is no quoted market price for these interests and a reasonable estimate of fair value could not be made without incurring excessive costs.

The Company's estimate of the fair value of other financial instruments not separately disclosed approximates their carrying value, due to the immediate or short-term maturity of these financial instruments.

Foreign exchange
Monetary assets and liabilities of domestic companies and the integrated foreign subsidiaries, which are denominated in foreign currencies, are translated into Canadian dollars at the year end exchange rate. Non-monetary assets are translated at historical rates, and foreign currency transactions are translated at the exchange rate in effect on the transaction date. Gains and losses resulting from translation are included in the statement of operations in the year in which they arise. Gains and losses on hedges of foreign currency transactions are included as part of the Canadian dollar price of assets purchased.

Capital assets
Capital assets are recorded at cost and amortized on a straight line basis over their estimated useful lives as follows:

Computer equipment	–	30%
Furniture and fixtures	–	20%
Office equipment	–	20%
Leasehold improvements	–	term of lease

Income taxes
The company has adopted the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are provided for all significant temporary differences between the financial statement and tax bases of assets and liabilities, and are adjusted for tax rate changes as they occur.

(a) Net change in non-cash working capital balances related to operations for the years ended August 31 comprised the following:

	2000	1999
Accounts receivable	**$ (929,172)**	$ (1,539,843)
Income taxes	**3,030,979**	(8,368,616)
Other assets	**(22,202)**	(18,280)
Accounts payable and accrued liabilities	**(29,999)**	406,490
	$ 2,049,606	$ (9,520,249)

(b) Summary of interest and income taxes received and paid for the years ended August 31:

	2000	1999
Interest received	**$ 932,535**	$ 654,670
Interest paid	**$ –**	$ 58,086
Income taxes received	**$ 1,921,777**	$ 9,358
Income taxes paid	**$ 1,630,562**	$ 7,832,138

4. Royalty Interests

	2000		
	Cost	Accumulated Amortization	Net
Royalty agreements			
Revenue-producing (a) (b)	**$ 60,137,158**	**$ 16,983,532**	**$ 43,153,626**
Non-revenue Producing (c)	**8,118,969**	**132,182**	**7,986,787**
Royalty-related interests			
Public Companies (d) (e) (f) (i)	**139,047**	**–**	**139,047**
Private Companies (f)	**2,580,000**	**–**	**2,580,000**
	$ 70,975,174	**$ 17,115,714**	**53,859,460**
Provision (g) (h)			**(880,167)**
			$ 52,979,293

	1999		
	Cost	Accumulated Amortization	Net
Royalty agreements			
Revenue-producing (j) (l)	$ 50,984,984	$ 9,091,920	$ 41,893,064
Royalty-related interests			
Public Companies (k) (m) (n)	538,613	–	538,613
Private Companies	3,180,000	–	3,180,000
	$ 54,703,597	$ 9,091,920	$ 45,611,677

During the year ended August 31, 2000:

(a) The Company acquired, for $8.7 million, a royalty interest in the European sales of an undisclosed product from a Multinational Pharmaceutical Company.

(b) The Company acquired, for $1.4 million, an additional royalty interest in the worldwide revenues of Amgen Inc.'s drug Neupogen®.

(c) The Company acquired, for $7.2 million, a royalty interest in the sales of the allergy drug Desloratadine that has been filed for market approval to the Food and Drug Administration ("FDA") by Schering-Plough Corporation. The Company also has a contingent liability, for $1.8 million, if certain milestones are achieved. (See Note 9 b.)

(d) The Company acquired other royalty interests for $0.1 million.

(e) The Company sold certain royalty interests for $1.1 million. The royalty interests had a carrying value of $0.5 million.

(f) Write-downs of $0.7 million were recorded against common and preferred shares of royalty-related interests.

(g) A provision of $0.1 million was established against a royalty interest to reflect an impairment in value due to a delay in achieving projected sales.

(h) A provision of $0.8 million was established against a royalty interest to reflect an impairment in value due to a delay in commercialization.

(i) The fair value of royalty-related interests in public companies was $0.5 million as at August 31, 2000.

During the year ended August 31, 1999:

(j) The Company acquired, for $15.5 million, a royalty interest in the sales of an anti-cancer drug marketed by Bristol-Myers Squibb Company, under the brand name Taxol®.

(k) The company sold a royalty interest for $0.3 million. The royalty interest had a carrying value of $0.5 million.

(l) A write-down of $0.2 million was recorded against a royalty agreement due to impairment in value and subsequent disposal. A 1998 provision of $0.8 million against the royalty interest was reclassified as a write-down on the disposal of this royalty interest.

(m) A write-down of $0.2 million was recorded against the common shares of a royalty-related interest.

(n) The fair value of royalty-related interests in public companies was $1.1 million as at August 31, 1999.

On March 7, 2000, the Company amended an agreement with a Canadian chartered bank (the "Bank"). Under this amended agreement, the Bank provided the Company with a three-year reducing term facility of $30 million or the equivalent amount in U.S. dollars (the "Bridge Loan") with interest charged at LIBOR plus 200 basis points. The Company and its subsidiaries have granted the Bank a general security interest on their respective assets. All borrowings outstanding under the Bridge Loan shall be repaid in equal, consecutive, quarterly principal payments until the credit facility is repaid in full. The Company borrowed US$3.8 million under the Bridge Loan on December 16, 1998 to partially finance its acquisition of a royalty interest in Taxol. As of August 31, 2000, the Company had no amounts outstanding against the Bridge Loan and had credit available in the amount of $23.3 million.

4. Capital Stock

(a) Authorized
Unlimited number of common shares
Unlimited number of preferred shares issuable in series

(b) Issued

	Common Shares	
	Number	Amount
Balance at August 31, 1998	32,845,148	$ 37,025,785
Issued for cash by private placement (i)	7,300,000	15,714,983
Issued upon exercise of options	108,400	128,484
Balance as at August 31, 1999	40,253,548	$ 52,869,252
Issued for cash by private placement (i)	–	**(37,423)**
Issued upon exercise of options	**195,458**	**200,584**
Balance at August 31, 2000	**40,449,006**	**$ 53,032,413**

(i) During the year ended August 31, 1999 the Company issued 7,300,000 shares for cash consideration of $2.25 per share in a private placement. Share issue costs of $710,017, net of deferred income taxes of $580,924, have been netted against the proceeds of the issue. During the year ended August 31, 2000, an additional $37,423 in issue costs have been netted against the proceeds of the issue.

(c) Warrants
As at August 31, 1999, the Company had warrants outstanding for 267,850 shares at $3.00 per share. These warrants expired on September 5, 1999.

(d) Stock Options
Under the amended and restated stock option plan, introduced in 1998, the Company is permitted to issue to directors, officers and employees up to 3,790,500 common shares. The exercise price of the options granted under the plan is determined by the Board of Directors of the Company and cannot be lower than the market value on the date the options are granted. The options currently outstanding are exercisable at prices ranging from $1.00 to $2.30 at various dates up to July 6, 2010 with a weighted average remaining contractual life of 5.9 years. Performance options vest over five years if certain performance milestones are met, retention options vest if the holder owns shares of the Company for up to three consecutive years, and service options vest over three to five years.

	Number	Weighted Average Exercise Price
Balance at August 31, 1998	2,864,400	$ 1.61
Options granted	75,000	2.10
Options exercised	(108,400)	1.19
Options cancelled	(25,000)	2.07
Balance at August 31, 1999	2,806,000	1.64
Options granted	**289,600**	**1.78**
Options exercised	**(195,458)**	**1.03**
Options cancelled	**(216,142)**	**1.76**
Balance at August 31, 2000	**2,684,000**	**$ 1.80**
Exercisable at end of year	**2,336,632**	**$ 1.66**

7. Earnings Per Share

Basic earnings per share is based upon the weighted average number of shares outstanding during the year. Fully diluted earnings per share has been computed based on the weighted average number of shares outstanding after giving effect to the exercise of all outstanding warrants and options to acquire common shares, and the funds derived thereon were invested at 5.25% (1999 – 5.10%), giving rise to imputed earnings of $128,223 (1999 – $126,599).

8. Related Party Transactions

Transactions with related parties occur in the normal course of business and are reflected at the amounts agreed to by the parties. During the year ended August 31, 2000, the Company paid consulting fees of $500 (1999 – $4,250) to a director.

9. Commitments and Contingent Liabilities

a) Commitments

The Company has annual lease commitments inclusive of operating costs until March 31, 2002 as follows:

2001	$ 62,453
2002	36,431
	$ 98,884

b) Contingent Liabilities

In December 1999, the Company entered into an agreement to purchase a royalty interest. The Company has a contingent liability to pay an additional US$1.25 million, if the royalty rate was to increase during the first two years of commercial sale of the product.

(a) Provision for (recovery of) income taxes for the years ended August 31 comprised the following:

	2000	1999
Current income taxes	$ 3,030,790	$ (262,367)
Deferred income taxes	80,573	1,595,533
	$ 3,111,363	$ 1,333,166

(b) The major factors that caused variations from the Company's combined federal and provincial statutory income tax rate of 45% applicable to earnings before income taxes for the years ended August 31 were as follows:

	2000	1999
Provision for income taxes based on the statutory tax rate	$ 3,201,387	$ 1,412,154
Non-taxable portion of capital loss on sale of royalty interests	76,692	25,780
Non-taxable portion of write-downs and provisions on royalty interests	213,900	–
Benefit of amortization of share issue expenses not previously recognized	(122,991)	(8,299)
Benefit of lower tax rate in foreign jurisdiction	(305,650)	(219,070)
Other	48,025	122,601
Income taxes	$ 3,111,363	$ 1,333,166

(c) The components of the deferred tax assets as at August 31 were as follows:

	2000	1999
Royalty interests	$ 363,210	$ 151,234
Common shares issuance costs	368,762	464,739
Other	(27,154)	169,418
	$ 704,818	$ 785,391

11. Segmented Reporting

The Company's operations consist primarily of acquiring and creating royalty interests which constitutes a single operating segment. The operations can be attributed to geographic regions of Canada, United States and International, based on the location of the royalty interests.

(a) Revenues for the years ended August 31 were as follows:

	2000	1999
Canada	**$ 380,730**	$ 819,994
United States	**12,484,063**	10,863,588
International	**6,994,165**	144,344
	$ 19,858,958	$ 11,827,926

(b) Capital assets for the years ended August 31, 2000 and 1999 were $114,996 and $166,522, respectively in Canada.

(c) Net book value of royalty interests as at August 31 was as follows:

	2000	1999
Canada	**$ 2,731,480**	$ 4,277,640
United States	**41,807,365**	38,170,124
International	**8,440,448**	3,163,913
	$ 52,979,293	$ 45,611,677

During the year ended August 31, 2000, revenues from the Company's four largest royalty interests amounted to 29%, 22%, 17% and 16% of revenues. In the year ended August 31, 1999, revenues from the Company's two largest royalty interests amounted to 46% and 38% of revenues.

12. Derivative Financial Instruments

The Company has only limited involvement with derivative instruments and does not use them for speculation purposes. They are used to manage well-defined foreign exchange risks out of the normal course of business. The Company enters into forward foreign exchange contracts and options to hedge accounts receivable and future revenues denominated in U.S. dollars, and various other currencies.

At August 31, 2000, the Company had forward foreign exchange contracts to sell French Francs for U.S. dollars in the amount of $8.2 million outstanding (1999 – nil) at an exchange rate of 6.51 over the next 22 months. The market value of the forward foreign exchange contracts outstanding at August 31, 2000 was such that if these contracts had been closed out at August 31, 2000, the Company would have recorded a gain of $973,000. Unrealized gains and losses on outstanding forward foreign exchange contracts for accounts receivable are recorded in the financial statements, but are not recorded in the financial statements for hedges against future foreign currency revenue.

The Company does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate nonperformance by counterparties. The Company only deals with highly rated counterparties, normally major financial institutions.

Board of Directors

John D. Baldeschwieler PHD [2]
J. Stanley Johnson Professor and Professor of Chemistry Emeritus
California Institute of Technology

Digby Barrios [1,3]
Consultant
(previously President and Chief Operating Officer, Boehringer Ingelheim Corporation)

Gregory D. Gubitz [4]
Senior Vice-President and Corporate Secretary
MDS Capital Corp.

R. Ian Lennox [2,3,4]
Chairman
Drug Royalty Corporation Inc.
President and CEO
MDS Drug Discovery & Development Sector

Sir Brian Richards PHD [3]
Retired Co-founder
British Biotech plc

Calvin R. Stiller MD, FRCP(C) [2,4]
Chairman and Chief Executive Officer
Canadian Medical Discoveries Fund Inc.

Mark Vincent MB, CHB, MRCP (UK), FRCP(C) [2]
Staff Medical Oncologist
London Regional Cancer Centre
London, Ontario

Willem Wassenaar MD, MBA [1,2]
Chief Operating Officer
Transplantation Technologies Inc.

James R. Webster [2,4]
President
Drug Royalty Corporation Inc.

David A. Williams [1,4]
President
Roxborough Holdings Limited

Management and Corporate Officers

James R. Webster
President

Harry K. Loveys [2]
Executive Vice-President

John McCulloch PHD
Vice-President, Technology

Shameze Rampertab
Director, Finance and Secretary-Treasurer

Shermaine Tilley PHD
Director, Bio/Pharmaceutical Research

Committees

1 **Audit Committee**
The principal responsibility of this committee relates to the review of the annual consolidated financial statements, accounting practices and policies, and results of external audits and related matters; assessing internal control programs and policies; examining the fees and expenses for audit services; and recommending external auditors for appointment by shareholders.

2 **Investment Committee**
The purpose of this committee is to consider royalty-based investment proposals prior to presentation to the full Board of Directors for approval. The composition of the committee gives consideration to individual members' expertise in pharmaceutical regulatory issues, clinical trials, drug development, drug delivery technology, medical research and business issues.

3 **Compensation Committee**
The responsibility of this committee is to review the overall compensation strategy, objectives and policies; review performance assessments of senior management; and confirm the adequacy and form of executive and director compensation.

4 **Executive Committee**
The purpose of this committee is to formulate and review the strategy and overall policies of Drug Royalty.

Investor Information Request

Please complete the following and mail (see address on reverse) or fax reply to: 416-863-5161. You may also request information by e-mailing your specifications to info@drugroyalty.com

1. Are you a (please check one)

☐ Retail Shareholder Current – Number of Shares: _____

☐ Retail Broker ☐ Retail Shareholder Prospective

☐ Library ☐ Other: (please specify) _____

2. What additional information would you like to see in this report? _____

_____

3. If you would like to be on our mail ☐ fax ☐ or e-mail ☐ list for future news releases, please provide the following:

Name: _____

Company: _____

Address: _____

_____

City: _____ Province/State: _____

Country: _____ Postal Code/Zip: _____

Telephone: _____ Fax: _____

E-mail: _____

4. What information would you like to receive?

☐ Annual Report ☐ News Releases/Quarterly Results

☐ Other (please specify) _____

5. Any general comments? _____

_____

_____

For additional information and to stay current on Drug Royalty's share price and press releases, visit our web site at www.drugroyalty.com, e-mail us at info@drugroyalty.com or contact investor relations at (416) 863-1865

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1998 – 1999

Low	Volume
1.25	947,880
1.47	3,539,896
2.00	3,119,258
2.00	2,936,620

	rter 4	Total
	5,351	**$ 19,859**
	663	**2,490**
	3,064	**9,642**
	8	**612**
	1,188	**3,112**
Net Earnings	**$ 791**	**$ 792**	**$ 992**	**$ 1,428**	**$ 4,003**
Cash Flow from Operations	**$ 2,227**	**$ 4,355**	**$ 3,516**	**$ 4,495**	**$ 14,593**

1999 ($000)	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Revenue	$ 3,231	$ 2,853	$ 2,713	$ 3,031	$ 11,828
Expenses:					
General and administration	588	580	709	583	2,460
Amortization, write-downs and provisions	1,801	1,465	1,365	1,555	6,186
Financial	–	78	(34)	–	44
Income taxes	337	326	280	390	1,333
Net Earnings	$ 505	$ 404	$ 393	$ 503	$ 1,805
Cash Flow from Operations	$ 2,306	$ 2,416	$ 1,759	$ 2,080	$ 8,561

Board of Direct

John D. Balde
PHD [2]
J. Stanley Johnso
and Professor of
Emeritus
California Insti
Technology

Digby Barrios
Consultant
(previously Pres
Chief Operatin
Boehringer Ing
Corporation)

Gregory D. Gu
Senior Vice-Pres
and Corporate S
MDS Capital C

R. Ian Lennox
Chairman
Drug Royalty C
Inc.
President and C
MDS Drug Di
& Developmer

Drug Royalty Corporation Inc.
8 King St. East, Suite 202
Toronto, ON M5C 1B5
Canada

Place Stamp Here

Committees

1 **Audit Commi**
The principal r
financial statements, accounting practices and policies, and results of external audits and related matters; assessing internal control programs and policies; examining the fees and expenses for audit services; and recommending external auditors for appointment by shareholders.

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Business Information

Corporate Headquarters
Drug Royalty Corporation Inc.
8 King Street East, Suite 202
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Canada M5C 1B5
Tel: (416) 863-1865
Fax: (416) 863-5161

e-mail: info@drugroyalty.com
website: www.drugroyalty.com

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Ontario

Transfer Agent and Registrar
Computershare Investor Services
100 University Avenue
11th Floor
Toronto, Ontario
M5J 2Y1
Tel: (800) 663-9097

Legal Counsel
Fasken Martineau
DuMoulin LLP
Toronto, Ontario

Stock Symbol
Common shares listed on the Toronto Stock Exchange
Symbol: DRI

Inquiries
Shameze Rampertab
Director, Finance and Secretary-Treasurer

Annual Meeting
The annual meeting of shareholders will take place at 4:00 p.m. on Thursday, February 15, 2001 at the Toronto Stock Exchange Conference Centre.

Common Stock Trading Range

	1999 – 2000			1998 – 1999		
For the Fiscal Period	High	Low	Volume	High	Low	Volume
September – November	**$ 2.05**	**$ 1.35**	**1,688,683**	$ 1.90	$ 1.25	947,880
December – February	**2.40**	**1.32**	**5,700,156**	2.44	1.47	3,539,896
March – May	**3.46**	**1.70**	**3,622,725**	2.35	2.00	3,119,258
June – August	**2.15**	**1.60**	**985,295**	2.45	2.00	2,936,620

Quarterly Information

2000 ($000)	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Revenue	**$ 3,409**	**$ 5,346**	**$ 4,753**	**$ 6,351**	**$ 19,859**
Expenses:					
General and administration	**598**	**647**	**582**	**663**	**2,490**
Amortization, write-downs and provisions	**1,436**	**2,658**	**2,484**	**3,064**	**9,642**
Financial	**28**	**575**	**1**	**8**	**612**
Income Taxes	**556**	**674**	**694**	**1,188**	**3,112**
Net Earnings	**$ 791**	**$ 792**	**$ 992**	**$ 1,428**	**$ 4,003**
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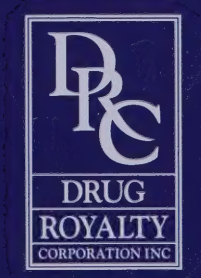
Income taxes	337	326	280	390	1,333
Net Earnings	$ 505	$ 404	$ 393	$ 503	$ 1,805
Cash Flow from Operations	$ 2,306	$ 2,416	$ 1,759	$ 2,080	$ 8,561

Design: New Region Design Inc.



www.drugroyalty.com

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